

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6319

BILL NUMBER: SB 60

DATE PREPARED: Mar 21, 2002

BILL AMENDED: Feb 26, 2002

SUBJECT: DROP for Police and Firefighters.

FISCAL ANALYST: James Sperlik; Bob Sigalow,

PHONE NUMBER: 232-9866; 232-9859.

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes a Deferred Retirement Option Plan (DROP) for members of all police and firefighter pension funds. It provides that the DROP is available on January 1, 2003, and expires on December 31, 2007.

The bill provides that a member is eligible to participate in the DROP if the member may retire and receive an unreduced benefit. It provides that a member who wishes to participate in the DROP must make an irrevocable election and choose a retirement date that is no sooner than 12 months and no later than 36 months after the member enters the DROP. The bill provides that a member in the DROP continues in active service, and both the member and the member's employer continue to make contributions to the applicable fund.

It provides that a member retiring from the DROP receives a monthly benefit plus an additional amount paid either in a lump sum or in installments. The bill provides that if a member exits the DROP for any reason other than retirement on the member's chosen retirement date, the member's or the member's survivors' benefits are calculated as if the member never entered the DROP. It permits a civil taxing unit to exceed the property tax levy limits to pay the additional amount.

The bill also makes certain changes to the "dies in the line of duty" definition for the police and firefighter pension funds established by IC 36-8-8. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2002.

Explanation of State Expenditures: (Revised) The earliest the first DROP could take place would be May 2004.

Under the bill, the property tax levy needed for the DROP payments would not be subject to the unit's

maximum permissible levy. The state would be liable for Property Tax Replacement Credits on the units' DROP levies for CY 2004 through CY 2007. If a unit's levy is already at the maximum levy, then the state would have additional PTRC exposure on the entire DROP amount. However, if a unit's levy, including the DROP levy, does not exceed the maximum levy, then there would be no additional PTRC exposure since the unit already has enough levy authority to levy that amount.

The table below summarizes the estimated additional PTRC exposure to the state. The lower estimates were based on each affected unit's 2001 maximum permissible levy and the estimated levies needed to fund the program. The higher estimates on the second row of the table show the maximum additional PTRC exposure if all of the affected units levied their entire maximum levies in addition to the DROP levies. PTRC is paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any additional PTRC expenditures would ultimately come from the General Fund.

	Potential *PTRC CY 2004	Potential PTRC CY 2005	Potential PTRC CY 2006	Potential PTRC CY 2007
Estimated PTRC cost if units maintain maximum levy experience.	\$33,620	\$99,738	\$198,831	\$356,178
Maximum PTRC cost if all units at maximum levy in CY 2004 to CY 2007.	\$98,400	\$290,200	\$571,100	\$1,007,300

*PTRC Property Tax Replacement Credit (20% of qualifying funds). A property tax credit reduces a taxpayer's net property tax liability.

The Office of Fiscal and Management Analysis has a printout which shows the impact on each participating unit.

Explanation of State Revenues:

Explanation of Local Expenditures: As currently drafted, this proposal is actuarially neutral; there will be no cost to the plan.

Explanation of Local Revenues: (Revised) The bill allows a civil unit to increase property taxes outside the controlled levy to cover the lump-sum DROP payments as police and firefighters exit their DROP period. Note that the DROP lump sum is reduced by any Pension Relief distribution and Public Depository Insurance Funds distribution which also provides pension relief. The bill does not require civil taxing units to pre-fund the DROP benefit.

State Agencies Affected: The Public Employees' Retirement Fund (PERF) as administrators of the 1977 Police Officers' and Firefighters' Disability and Pension Fund.

Local Agencies Affected: Units which participate in the DROP program.

Information Sources: Doug Todd of McCready & Keane, actuaries for PERF and the police and fire funds, 576-1508.